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Restarting the SME credit market in Europe: what role for securitisation and the capital markets?

In the aftermath of the crisis, the 23 million EU SMEs – amounting to 99 % of all enterprises - remain more than ever the backbone of the EU economy. It is of utmost importance that they have the financial capacity to restore economic growth. Yet the European real economy is mainly financed by credit – up to 80 %, unlike that of the United States. This figure highlights the crucial balancing act for European policymakers – the need to create a broader financing base in the long run, but also support alternative ways of boosting credit in the medium term.

Securitisation earned itself a bad name with the economic and debt crisis as the originate-to-distribute model was perceived to be over-reliant on ratings agencies and vulnerable to lax lending standards and informational opacity. However, there is a consensus once again that SME loan securitisation has not created toxic assets and should not be discredited by bad commercial practice elsewhere. With this in mind, UEAPME, ACCA and AFME recently organised a round table called 'Restarting the SME credit market in Europe: what role for securitisation and the capital markets?'' hosted by Othmar Karas, MEP and moderated by Corien Wortmann-Kool, MEP at the European Parliament in order to discuss and raise further awareness on this funding diversification tool.

Othmar Karas, MEP Chair of the event said: "*SMEs need to gain even more the support of the financial world through a revitalised dialogue between institutions, stakeholders, banks and businesses. At the same time, we need to learn lessons from the crisis and foster sustainable financing bases for enterprises to secure, in the long run, economic growth, employment and prosperity in Europe. Today's debate on restarting the SME credit market in Europe and the role of securitisation for reviving lending to SMEs features prominently in the on-going work of the European Parliament and myself."*

Corien Wortmann–Kool, MEP, who moderated the debate, highlighted that "*It is important to look to the future. When the economy starts its recovery, the need for access to finance for SMEs will rise considerably. It is important to continue the dialogue on this issue in order to achieve progress. The European Parliament has put SMEs at the heart of its work, namely on the CRDIV issue where it has successfully included an SME supporting factor to allow for a differentiated assessment of risk associated with lending to SMEs*."

Participants agreed that this is a welcome step, but further support mechanisms are necessary to help boost the supply of credit for, and encourage investment in, SMEs. They echoed MEP Karas and stressed that SME lending, alternative solutions such as crowd-funding and equity financing combined with collateral or guarantees through public funds need to be enhanced and alternative ways of evaluating and rating risks should be sought to better reflect business realities.

Emmanouil Schizas, Senior Economic Analyst at ACCA (the Association of Chartered Certified Accountants) argued "*while CRD IV in its current form presents a good compromise between financial stability and SME growth, the Basel III paradigm for capital and liquidity regulation in general will tend to make SME lending more expensive, and force banks to shift their business models away from SME lending. Securitisation provides one way of avoiding this. Investors' appetite for SME credit as an asset class is quite strong. As long as this is not matched by banks' appetite for SME loans, the potential will exist for securitisation to fill the gap*."

There was a consensus amongst panellists that securitisation, used in the right way, could spread risk intelligently. The European Commission and the European investment fund are supportive of the tool and are committed to promote access to SME bond markets and securitisation. The newly published Green paper on long-term finance includes a section covering securitisation, though some speakers regretted that this Green Paper seemed too soft on the regulatory incentives against investing in SMEs.

The future of the market is dependant on several factors such as transparency and standardisation, to restore the trust of investors. It was also pointed out that securitisation is only another way of combining the same raw materials of finance: information, control, collateral, and risk. The more it relies on information, the better the outcomes for all parties. One way of reducing the cost of producing information is through credit rating agencies, but it was highlighted that current proposals for rating agency liability could make ratings impossible and cause the market to freeze, just as they did in the US in the early days of the Dodd-Frank Act. It was stressed that the Americans corrected their mistake within a year, but this is time Europe cannot afford to waste.

Gerhard Huemer, Director Economy Policy at UEAPME, pointed out that "*Europe is in a very critical situation regarding SMEs' access to finance and this will get worse when the economy restarts. 80% of SMEs are financed by loans. You will not be able to find banks ready to take the risk to finance an innovative project, as they are deleveraging, they are forced to take less risk. There might be alternatives, but less than 1% of SMEs have access to this kind of finance. We are trying to motivate SME owners to do more equity finance, but tax systems are a barrier in some European countries. One of the ideas is to bring bundles of SMEs to the stock exchange. The other idea is securitisation – to sell the risk of SME to the investor market. At present the tax-payer is carrying the risk, but we need private investors to take that risk for long-term solutions."*

Richard Hopkin, a managing director at the Association for Financial Markets in Europe concluded *"High quality securitisation, of SME loans and other real economy assets, has a crucial role to play in funding growth. We appreciate the increasing number of positive statements from senior policymakers which support securitisation, including in the Commission's recent Green Paper, but it is essential that this is translated into evidence-based, sensibly calibrated and non-duplicative regulation on the ground".*

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Notes to editors

For ACCA

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1. ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.
2. We support our **154,000** members and **432,000** students in **170** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of over 80 offices and centres and more than **8,400** Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.
3. Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

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